

No. 10 /2/DPM

Jakarta, January 31, 2008

CIRCULAR LETTER

To

All COMMERCIAL BANKS

Subject : Repurchase Agreement Transactions with Bank Indonesia in
Secondary Market

In order to extend types of securities tradable under Repurchase Agreement (Repo) with Bank Indonesia, it is deemed necessary to re-regulate provisions concerning Repo transactions constituting implementation provisions of Bank Indonesia Regulation Number 4/9/PBI/2002 dated November 18, 2002, concerning Open Market Operations (State Gazette of the Republic of Indonesia Number 126 of 2002, Supplement to the State Gazette of the Republic of Indonesia Number 4243) as amended for the last time by Bank Indonesia Regulation Number 7/30/PBI/2005 dated September 13, 2005 (State Gazette of the Republic of Indonesia Number 84 of 2005, Supplement to the State Gazette of the Republic of Indonesia Number 4533), Bank Indonesia Regulation Number 4/10/PBI/2002 dated November 18, 2002, concerning Bank Indonesia Certificate (State Gazette of the Republic of Indonesia Number 127 of 2002, Supplement to the State Gazette of the Republic of Indonesia Number 4244) as amended by Bank Indonesia Regulation Number 6/5/PBI/2004 dated February 16, 2004 (State Gazette of the Republic of Indonesia Number 18 of 2004, Supplement to the State Gazette of the Republic of Indonesia Number 4366) and Bank Indonesia Regulation Number 6/2/PBI/2004 dated February 16, 2004, concerning Bank Indonesia - Scripless Securities Settlement System (State Gazette of the Republic of Indonesia Number 15 of 2004, Supplement to the State Gazette of the Republic of Indonesia Number 4363) as follows.

I. GENERAL ...

I. GENERAL PROVISIONS

Terminologies used in this Bank Indonesia Circular Letter are defined as follows.

1. Bank is a Commercial Bank as referred to in Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998, conducting business on conventional basis.
2. Open Market Operation, hereinafter to be referred to as OMO, is a transaction activity in the money market conducted by Bank Indonesia with Banks and other parties in effort of monetary control.
3. Securities is a securities issued by Bank Indonesia, the Government, and/or other institutions, administered in Bank Indonesia - Scripless Securities Settlement System.
4. Bank Indonesia Certificate, hereinafter to be referred to as SBI, is a securities denominated in the Rupiah issued by Bank Indonesia as a short-term debt instrument.
5. Government Bond, hereinafter to be referred to as SUN, is a securities in the form of promissory note as referred to in Act Number 24 of 2002 concerning Government Bond, comprising Treasury Bill and Treasury Bond.
6. Treasury Bill, hereinafter to be referred to as SPN, is a SUN with a maturity of up to 12 (twelve) months and interest payment by discount.
7. Treasury Bond, hereinafter to be referred to as ON, is a SUN with a maturity of more than 12 (twelve) months with coupon and/or with interest payment by discount.
8. BI-Rate is a policy rate with a tenor of 1 (one) month periodically stipulated by Bank Indonesia as the signal of monetary policy for a specific period and announced to the public.
9. Bank Indonesia – Real Time Gross Settlement System, hereinafter to be referred to as BI-RTGS System, is a system for electronic fund transfer among BI-RTGS System members in the Rupiah with settlement in real

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time and on individual per transaction basis.

10. Bank Indonesia - Scripless Securities Settlement System, hereinafter to be referred to as BI-SSSS, is a system that provides transaction facilities with Bank Indonesia including its administration and electronic securities administration, seamlessly interconnected among participants, the Operator, and the BI-RTGS System.
11. Securities Transaction under Repurchase Agreement, hereinafter to be referred to as Repo, is a Securities selling transaction by Bank to Bank Indonesia under obligation to repurchase at an agreed price and term.
12. Demand Deposit Account is a fund account of Bank in the Rupiah with Bank Indonesia.
13. Trading Account is a Securities account of Bank which is used to register tradable Securities ownership in the Central Registry.
14. Commercial Bank Daily Report System, hereinafter to be referred to as LHBUS System, is a reporting facility of Bank to Bank Indonesia on daily basis which provides information on money market and announcement of Bank Indonesia.
15. Hair Cut is a margin stipulated by Bank Indonesia as a subtracting factor of Securities price.

II. GENERAL REQUIREMENTS

1. Bank Indonesia shall open window time for 1 (one) day Repo transaction through an announcement in the BI-SSSS and/or LHBUS System.
2. Securities used in the Repo transaction shall be Securities in the Rupiah.
3. The Repo transaction as referred to in number 1 shall be conducted under sell and buy back principle, namely Securities selling by Bank with an obligation to be repurchased by the concerned Bank upon the maturity of the Repo transaction.
4. Party eligible to submit Repo transaction is Bank for its own behalf.
5. Bank Indonesia shall charge interest on Repo transaction (Repo rate)

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amounting to the applicable BI-Rate on the transaction date added with a margin of 300 (three hundred) basis points, which has to be fully paid on the Repo transaction maturity date.

6. Any Bank conducting Repo transaction with Bank Indonesia shall be accountable for the validity of the submitted Repo data.
7. Any Bank may submit Repo transaction if it is not under “suspend” sanction as BI-SSSS participant.
8. Repo transaction settlement shall be conducted on the transaction day (same day settlement) by Delivery Versus Payment mechanism.
9. Any Bank shall hold adequate Securities series in its Trading Account for Securities selling settlement under Repo before the Repo transaction window time on the transaction date is closed (first leg).
10. Any Bank shall hold an adequate balance in its Demand Deposit Account for Securities repurchasing settlement on the Repo transaction maturity date (second leg).
11. Bank Indonesia may change or close the Repo transaction window time which is announced through the BI-SSSS and/or the LHBUS System no later than 1 (one) working day prior to the window time change or closing.

III. SECURITIES REQUIREMENTS AND VALUES

1. Securities tradable under Repo are SBI and/or SUN of Bank as registered in Trading Account with the BI-SSSS.
2. On the Repo maturity date, Securities under Repo shall hold remaining days to maturity of :
 - a. at least 2 (two) working days for SBI and SPN; or
 - b. at least 10 (ten) working days for ON including Retail Government Bond (ORI) and Zero Coupon Bond (ZCB).
3. Any Securities tradable under Repo by a Bank shall amount to the maximum nominal value of Securities held by the Bank on 1 (one) working day prior to the date of transaction.

4. Bank Indonesia shall stipulate Securities trade value as follows.

a. SBI

- 1) SBI trade value is derived from SBI nominal value multiplied by its price.
- 2) Price of each SBI series as registered in the BI-SSSS shall be determined by Bank Indonesia based on SBI theoretical price taking account of weighted average discount rate on issuance and remaining maturity of each SBI series.

b. SUN

1) SPN

- a) SPN trade value is derived from SPN nominal value multiplied by its price.
- b) SPN price as registered in the BI-SSSS shall be based on SPN theoretical price taking account of weighted average discount rate upon issuance, remaining maturity, and tax on discount of each SPN series.
- c) If the Government conducts a re-opening of SPN series which has previously been issued, the weighted average of discount rate applied in the calculation of the SPN theoretical price as letter b) shall be the weighted average of discount rate of the last auction results of SPN re-opening.

2) ON

a) ON with coupon system shall include ORI

- (1) ON trade value is derived from ON nominal value multiplied by its price added by accrued interest value which shall be counted since the date of the last coupon payment up to its transaction date (dirty price).
- (2) ON price with coupon system, including ORI as registered in the BI-SSSS, shall be determined based on weighted average price of ON trade as per its series which is settled

on 1 (one) working day prior to the Repo transaction or based on ON theoretical price in the event of an absence of ON series transaction data in secondary markets on 1 (one) working day prior to the application for Repo (T-1).

b) ON without coupon system or Zero Coupon Bond (ZCB)

- (1) ZCB trade value is derived from ZCB nominal value multiplied by its price.
 - (2) ZCB as registered in the BI-SSSS shall be based on ZCB theoretical price taking account of weighted average of discount rate upon issuance and remaining maturity of each series.
 - (3) In the event of a re-opening of ZCB series by the Government, the weighted average discount rate applied in the calculation of theoretical price as number (2) shall be the weighted average discount rate of the last re-opening results.
5. To prescribe Repo Selling settlement value, Bank Indonesia shall determine a Hair Cut rate of each type of Securities.
 6. Securities price used in the computation of Securities selling on Repo transaction date (first leg) shall be the same with the Securities price applied in the calculation of Securities repurchase on the Repo transaction maturity date (second leg).
 7. Bank Indonesia shall stipulate types and/or series of Securities tradable under Repo.

IV. APPLICATION FOR REPO SECURITIES TRANSACTION

1. Bank Indonesia – Directorate of Monetary Management, c.q. Monetary Operation Bureau (DPM-BOpM), shall announce Repo rate, Hair Cut, and Repo transaction maturity through the BI-SSSS and/or LHBUS System no later than before the opening of Repo transaction window time (T+0).

2. Repo transaction window time is from 4.00 p.m. up to 5.00 p.m. (western Indonesia standard time) every working day.
3. During the Repo transaction window time Banks shall submit transactions directly through the BI-SSSS by including, among other things, types, series, and nominal value of Securities under Repo and transaction maturity.
4. Settlement value of each Securities under Repo shall be computed based on nominal value, price, Repo rate, maturity, and Hair Cut of each type of Securities. An example of calculation of Repo transaction is presented in Appendix.
5. If the Repo transaction as referred to in point II.1 is conducted on 1 (one) working day before a holiday, the Repo transaction maturity date shall be the following working day.
6. Number of days in the calculation of Repo rate to be paid by Bank shall be counted based on calendar day.

V. SETTLEMENT

1. Bank Indonesia, c.q. Directorate of Monetary Management - Monetary Management Transaction Settlement Division (DPM-PTPM) shall settle Repo transactions through the BI-SSSS under transaction by transaction (gross to gross) mechanism.
2. The Repo transaction settlements as referred to in number 1 comprise :
 - a. Securities purchasing settlement (first leg)
 - 1) On Repo transaction date, the DPM-PTPM shall conduct first leg settlement after the Repo transaction window time closes.
 - 2) The first leg settlement value of as referred to in number 1) shall be computed as follows.
 - a) For Repo using SBI, SPN, and ZCB

First Leg Settlement Value	=	Nominal Value of Securities under Repo	×	(Price – Hair Cut)
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b. For ...

b) For Repo using ON including ORI

First Leg Settlement Value	=	$\left(\begin{array}{c} \text{Nominal Value} \\ \text{of Securities} \\ \text{under Repo} \end{array} \times (\text{Price} - \text{Hair Cut}) \right) + \begin{array}{c} \text{Accrued} \\ \text{Interest} \end{array}$
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3) First leg settlement shall be conducted by :

- a) debiting Trading Account amounting to nominal value of type of Securities under Repo; and
- b) crediting Demand Deposit Account amounting to value of first leg fund settlement as referred to in number 2).

4) Any Bank is required to provide adequate Securities series under Repo for the first leg settlement.

5) If the Bank does not hold adequate Securities as referred to in number 4), the BI-SSSS shall automatically cancel the first leg settlement.

6) The cancellation of the first leg settlement as referred to in number 5) shall only be conducted on Repo transaction that does not have adequate Securities series.

7) If the cancellation of the first leg settlement occurs more than 1 (one) time on a same day, the cancellation of transaction shall be counted 1 (one) time.

8) Any Bank shall be imposed OMO sanctions on the cancellation of settlement as referred to in number 5) in accordance with applicable provisions.

b. Securities repurchasing settlement (second leg)

1) A second leg settlement shall be automatically conducted when the BI-SSSS opens on Repo transaction maturity date.

2) The second leg settlement value shall be computed as follows.

Second Leg Settlement Value	=	First Leg Settlement Value	+	Repo Transaction Interest Value
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- 3) The second leg settlement shall be conducted by :
 - a) debiting Demand Deposit Account amounting to the second leg settlement value as referred to in number 2); and
 - b) crediting Trading Account amounting to the nominal value of Securities under Repo.
- 4) Any Bank is required to hold an adequate balance in its Demand Deposit Account for the second leg settlement.
- 5) If the Bank does not hold an adequate balance in the Demand Deposit Account up to the cut off warning of the BI-RTGS System, the BI-SSSS shall automatically cancel the second leg settlement.
- 6) The cancellation of the second leg settlement shall only be conducted on mature Repo transaction which does not have adequate funds.
- 7) If the cancellation of the second leg settlement occurs more than 1 (one) time on a same day, the transaction cancellation shall be counted 1 (one) time.
- 8) Any Bank shall be imposed OMO sanctions on the cancellation of the second leg settlement as referred to in number 5) in accordance with applicable provisions.
- 9) In the event that Bank fails to conduct redemption on mature Repo transaction in the second leg settlement, Bank Indonesia shall :
 - a) debit Demand Deposit Account through the BI-RTGS System for the settlement of Repo interest nominal value to be paid;
 - b) settle Securities amounting to the nominal value of Securities which fails to be settled by :
 - i. conducting early redemption on SBI series automatically through the BI-SSSS; and/or
 - ii. treating SUN series which fails to be repurchased by the Bank as an outright selling transaction automatically through the BI-SSSS.

VI. SANCTIONS

1. Any Bank failing to settle its liabilities as referred to in point V.2.a.4), V.2.a.5) and V.2.a.8) or V.2.b.4), V.2.b.5), and V.2.b.8) shall be liable to OMO sanctions in the form of :
 - a. Written warning, with a copy to :
 - 1) Concerned Directorate of Bank Supervision, if the sanction is imposed on a Bank which head office is located in the working area of Bank Indonesia Head Office; or
 - 2) Bank Supervision Team of local Bank Indonesia Regional Office, if the sanction is imposed on a Bank which head office is located in the working area of a Bank Indonesia Regional Office; and
 - b. Financial penalty of 1⁰/₀₀ (one per thousand) of the nominal value of the cancelled transaction with a maximum penalty of Rp1,000,000,000.00 (one billion rupiah); and/or
 - c. Suspension to participate in OMO activities for 5 (five) working days if the Bank is imposed a sanction in the form of written warning due to cancellation of OMO transaction for the third time in the period of 6 (six) months.
2. The transaction nominal value as referred to in point 1.b. shall be calculated in accordance with the cancelled first leg settlement value as referred to in point V.2.a.5) or the second leg settlement value as referred to in point V.2.b.5).
3. The written warning as referred to in point 1.a. and the notification on the sanction of suspension to participate in OMO activities as referred to in point 1.c. shall be delivered on 1 (one) working day after the cancellation of transaction.
4. The sanction of financial penalty as referred to in point 1.b. shall be imposed by debiting Demand Deposit Account on 1 (one) working day after the cancellation of transaction.

VII. CONCLUDING ...

VII. CONCLUDING PROVISIONS

When this Circular Letter goes into effect,

1. Bank Indonesia Circular Letter Number 8/4/DPM dated February 7, 2006, concerning Secondary Market Trading of Bank Indonesia Certificate under Repurchase Agreement (Repo) with Bank Indonesia; and
2. Bank Indonesia Circular Letter Number 9/6/DPM dated March 26, 2007, concerning Amendment to Bank Indonesia Circular Letter No. 8/4/DPM dated February 7, 2006 concerning Secondary Market Trading of Bank Indonesia Certificate under Repurchase Agreement (Repo) with Bank Indonesia,

shall be revoked and declared no longer valid.

Provisions in this Bank Indonesia Circular Letter shall come into force as of February 1, 2008.

For the public to be informed, it is ordered that this Bank Indonesia Circular Letter be promulgated in the Official Government Gazette of the Republic of Indonesia.

Kindly be informed accordingly.

BANK INDONESIA,

EDDY SULAEMAN YUSUF

DIRECTOR OF MONETARY MANAGEMENT